MONETARY POLICY COMMITTEE STATEMENT FOR THE FIRST QUARTER OF 2022

GOVERNOR'S PRESENTATION TO THE MEDIA

MAY 18, 2022

Bank of Zambia

OUTLINE OF PRESENTATION

1. Decision of the Monetary Policy Committee
2. Global Economic Growth
3. Domestic Economic Activity and Outlook
4. Inflation Outturn and Outlook
5. Interest Rates
6. Domestic Credit
7. Money Supply
8. Fiscal Policy
9. Current Account
10. Gross International Reserves
11. Foreign Exchange Market
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DECISION OF THE MONETARY POLICY COMMITTEE

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At its Meeting held on May 16-17, 2022, the Monetary Policy Committee decided to maintain the Policy Rate at 9.0 percent.

In arriving at this decision, the Committee took into account the following factors:

- **a sharp decline in inflation over the past three quarters and the projection that it will trend towards the 6-8 percent target range by end-2023;**
- **positive efforts to implement fiscal consolidation measures;**
- **weaker growth prospects; and**
- **lingering vulnerabilities and risks to the financial sector.**

GLOBAL ECONOMIC GROWTH

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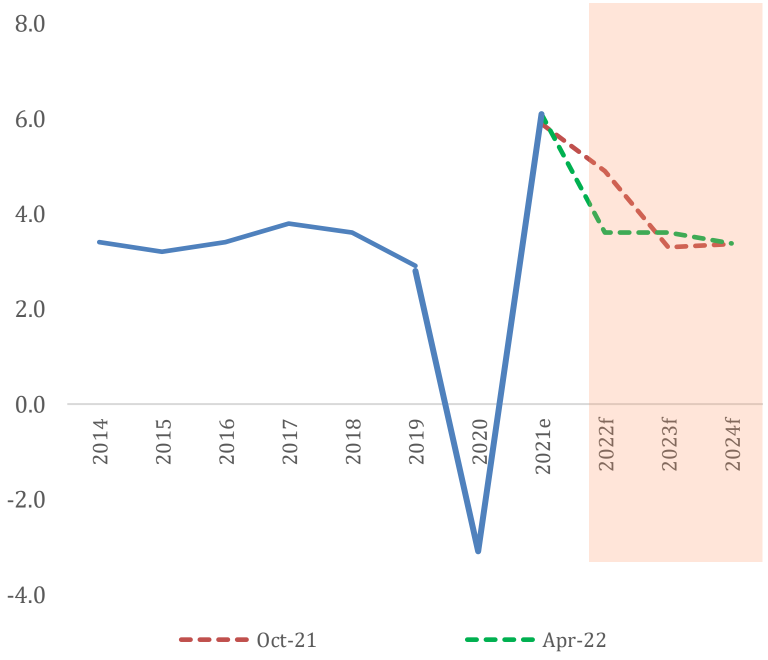
The Russia-Ukraine conflict has dimmed prospects for robust global growth. Commodity prices have risen, there are disruptions, particularly to cross-border production networks and trade flows.

In view of this, in April, the IMF revised downwards global growth forecasts for both 2022 and 2023 to 3.6 percent from earlier forecasts of 4.4 percent and 3.8 percent, respectively. In 2024, growth is projected to moderate to 3.4 percent.

The key downside risks to the growth outlook, in addition to the effects of the Russia-Ukraine conflict, include emergence of more infectious variants of COVID-19 and aggressive monetary policy tightening in advanced economies.

Chart 1: Global GDP Growth Projections (annual, percent)



Source: IMF World Economic Outlook, April 2022

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

High frequency indicators of economic activity suggest a slowdown in the first quarter of 2022.

According to the *Bank of Zambia Quarterly Survey of Business Opinion and Expectations* the *volumes of sales and service, domestic sales, profitability, level of investment, as well as new orders* declined (Chart 2).

Similarly, the *Stanbic Purchasing Manager's Index (PMI)* signalled weakening business conditions for the private sector as *new orders, output* and *employment* decreased. The slowdown is attributed to higher input prices and rising fuel pump prices (Chart 3).

However, there was a recovery in April, as the PMI rose to 50.5 from 49.6, with *output, new orders,* and *employment* posting some growth.

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

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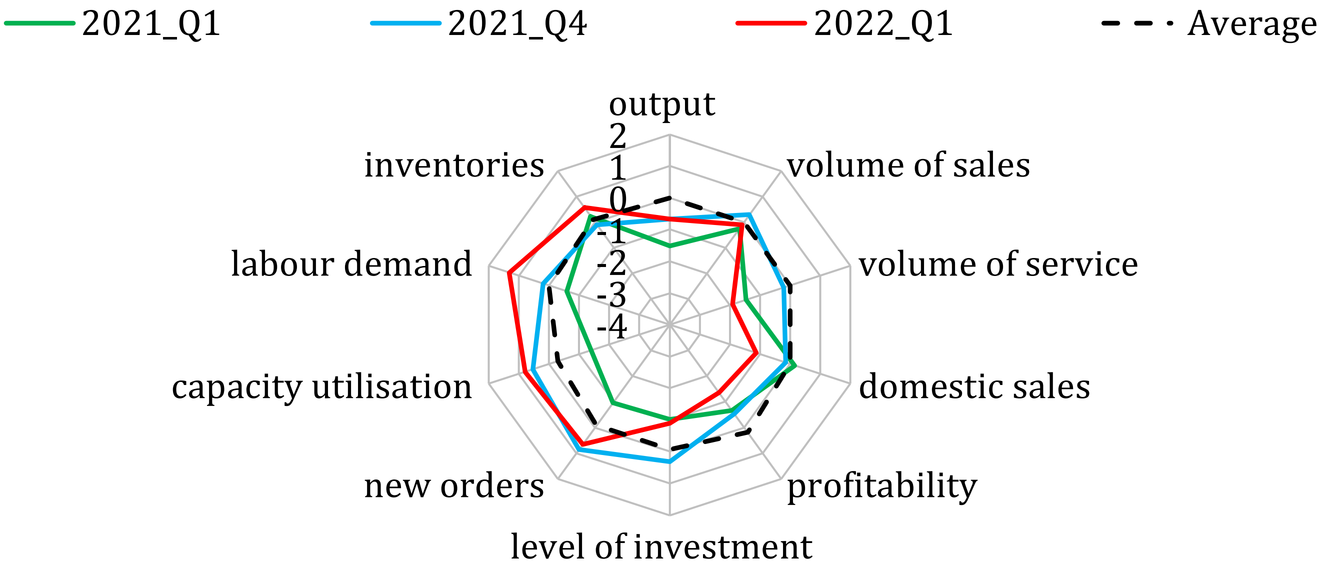
Chart 2: Business Opinions Survey Responses



*Note: The Survey indicators are standardised net balances with mean=0 and standard deviation=1. A value within the black circle entails weaker economic conditions than historical average and a value outside the black line signifies an improvement over the historical average.

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

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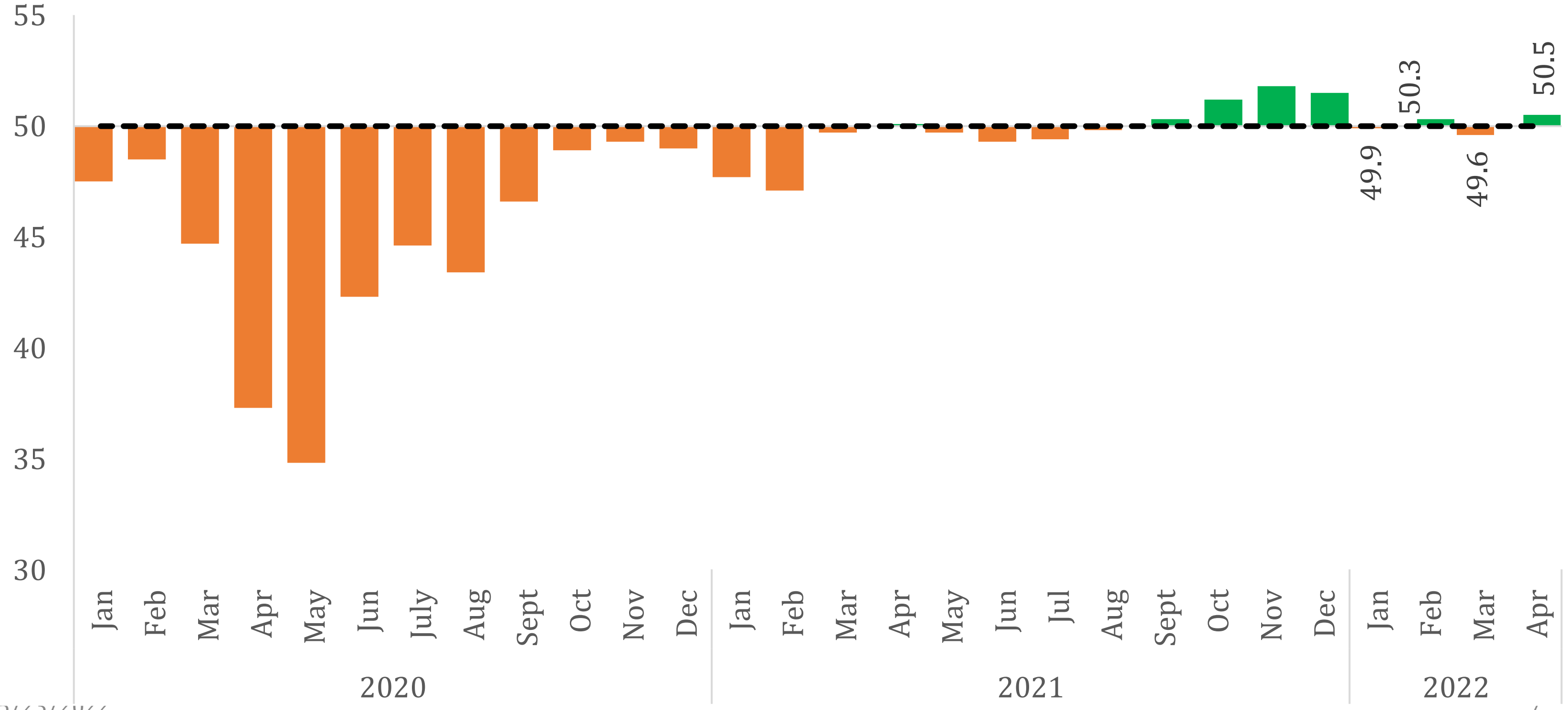
Chart 3: Purchasing Manager's Index for Zambia



DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

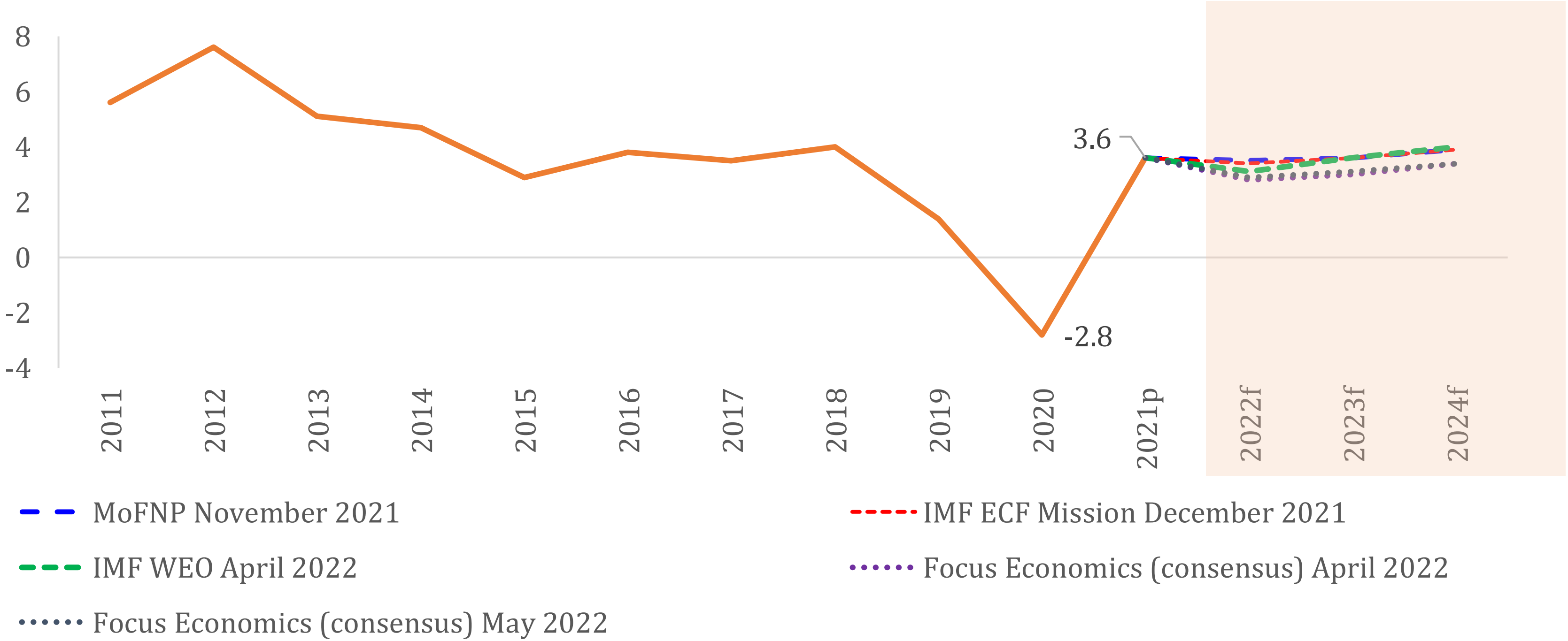
In the medium-term, real GDP is projected to grow moderately. In 2022, the economy is expected to expand by 3.5 percent and by further 3.6 percent and 3.9 percent in 2023 and 2024, respectively (Chart 4).

Key drivers of growth will be financial and insurance, information and communication, wholesale and retail trade, education, as well as the mining sector.

However, the impact of the Russia-Ukraine conflict, slow recovery in trade in partner countries, and uncertainty surrounding the resurgence of new and more contagious COVID-19 variants, amid a low vaccination rate, remain key downside risks to the growth outlook.

DOMESTIC ECONOMIC ACTIVITY AND OUTLOOK

Chart 4: Annual Real GDP Growth Forecast (percent)



Source: : Ministry of Finance and National Planning, Zambia Statistics Agency, IMF, Focus Economics

INFLATION OUTTURN AND OUTLOOK

Annual overall inflation continued to trend downward in the first quarter of 2022, declining to 14.1 percent from 18.9 percent in the last quarter of 2021 (Chart 5 and Table 1).

The fall in inflation was driven by the dissipation of shocks to prices of meat products and fish, lagged pass-through from the appreciation of the Kwacha against the US dollar, as well as improved supply of fish and fresh maize.

In April, annual overall inflation decelerated, for the ninth consecutive month, reducing to 11.5 percent from 13.1 percent in March. Increased supply of mostly vegetables and solid fuels was key to the decline in inflation.

INFLATION OUTTURN AND OUTLOOK

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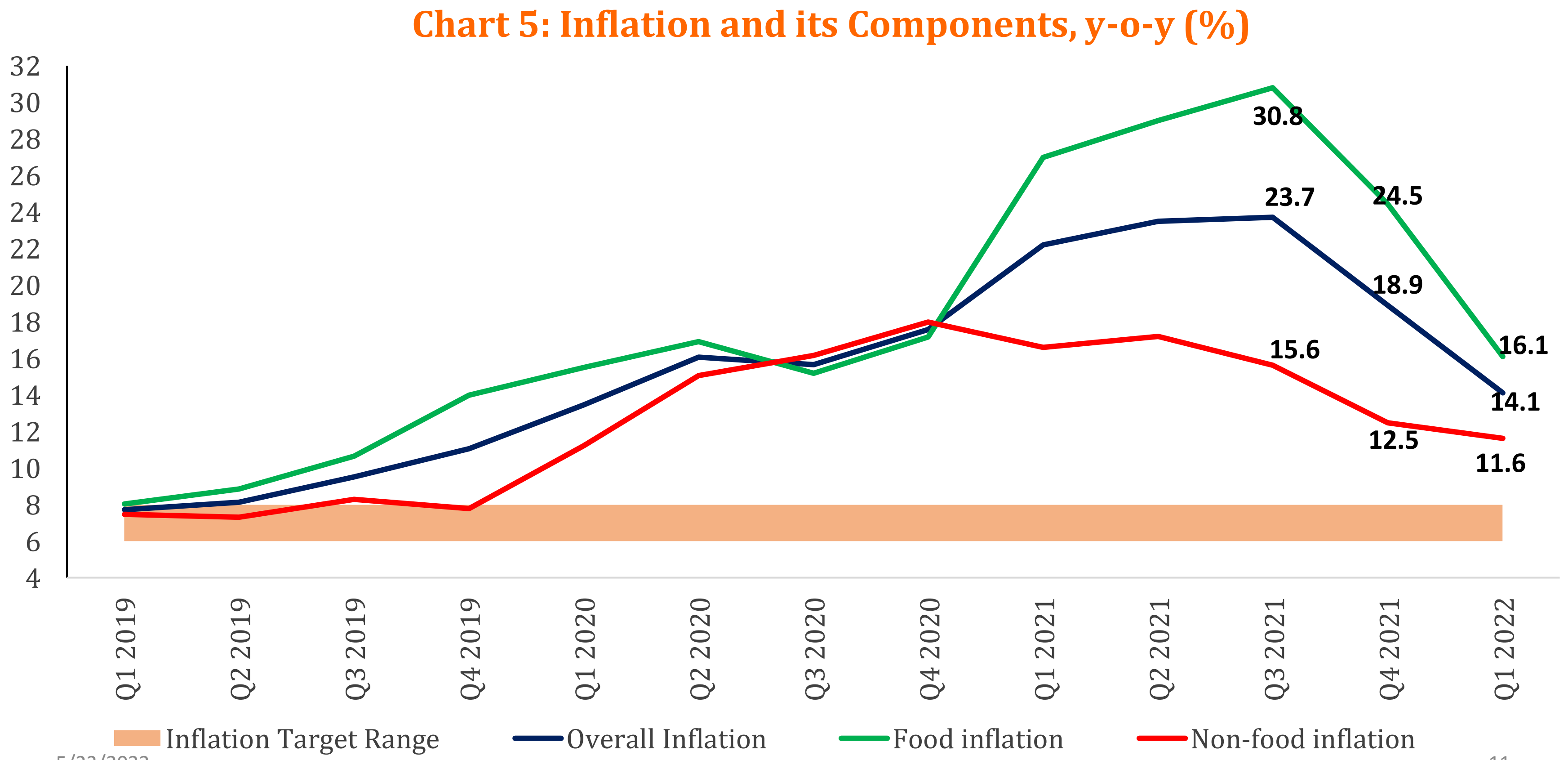

INFLATION OUTTURN AND OUTLOOK

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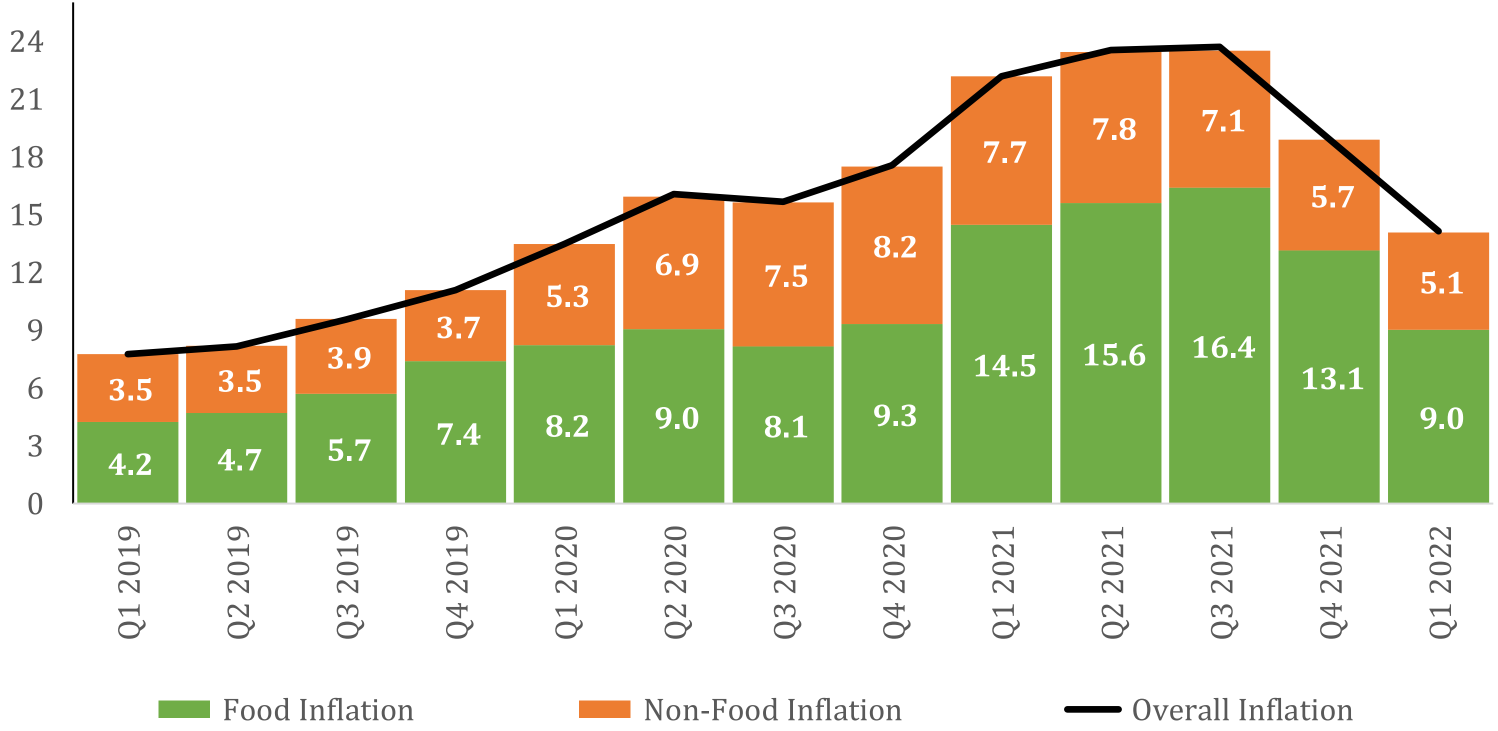
Table 1: Inflation outcomes (percent)

Quarterly Average	**Q1 2021**	**Q2 2021**	**Q3 2021**	**Q4 2021**	**Q1 2022**
Overall Inflation	22.2	23.5	23.7	18.9	**14.1**
Food Inflation	26.9	29.0	30.8	24.5	**16.1**
Non-food Inflation	16.6	17.2	15.6	12.5	**11.6**
Quarterly End Period	**Q1 2021**	**Q2 2021**	**Q3 2021**	**Q4 2021**	**Q1 2022**
Overall Inflation	22.8	24.6	22.1	16.4	**13.1**
Food Inflation	27.8	31.2	29.6	19.9	**15.3**
Non-food Inflation	17.0	17.1	13.6	12.1	**10.3**

INFLATION OUTTURN AND OUTLOOK

Chart 6: Contributions of Food and Non-Food Sub-groups to Overall Inflation (Percentage Points)



INFLATION OUTTURN AND OUTLOOK

- **Over the next eight quarters (Q2 2022 – Q1 2024), inflation is projected to continue trending downwards towards single digits. In 2022, inflation is projected to average 12.5 percent and then drop to 8.9 percent in 2023.**

- **Underlying this projection are mostly the effects of enhanced fiscal consolidation, anchored on the resolution of the external debt overhang, supported by an IMF Extended Credit Facility. These combined are expected to boost market confidence, positively impact inflation expectations, and macroeconomic stability and ultimately contribute to growth that has remained subdued for sometime.**

However, there are upside risks to the inflation outlook, which include:

- **increases in global energy and food prices, exacerbated by the on-going Russia-Ukraine conflict;**

INFLATION OUTTURN AND OUTLOOK

- **outbreaks of more infectious strains of COVID-19;**
- **tighter global financial conditions arising from contractionary monetary policies in advanced economies; and**
- **the projected grain deficit in some of our neighbouring countries, coupled with reduced domestic surplus, that is likely to push up food prices.**

INTEREST RATES

- Interest rates were broadly unchanged in Quarter 1 2022.

- The overnight interbank rate was virtually unchanged at 8.92 percent in March and was maintained within the bounds of the Monetary Policy Rate Corridor throughout the quarter (Chart 7).

- The commercial banks’ average nominal lending rate, at 26.0 percent, and the 180-day deposit rate for amounts exceeding K20,000, at 7.5 percent, remained unchanged.

INTEREST RATES

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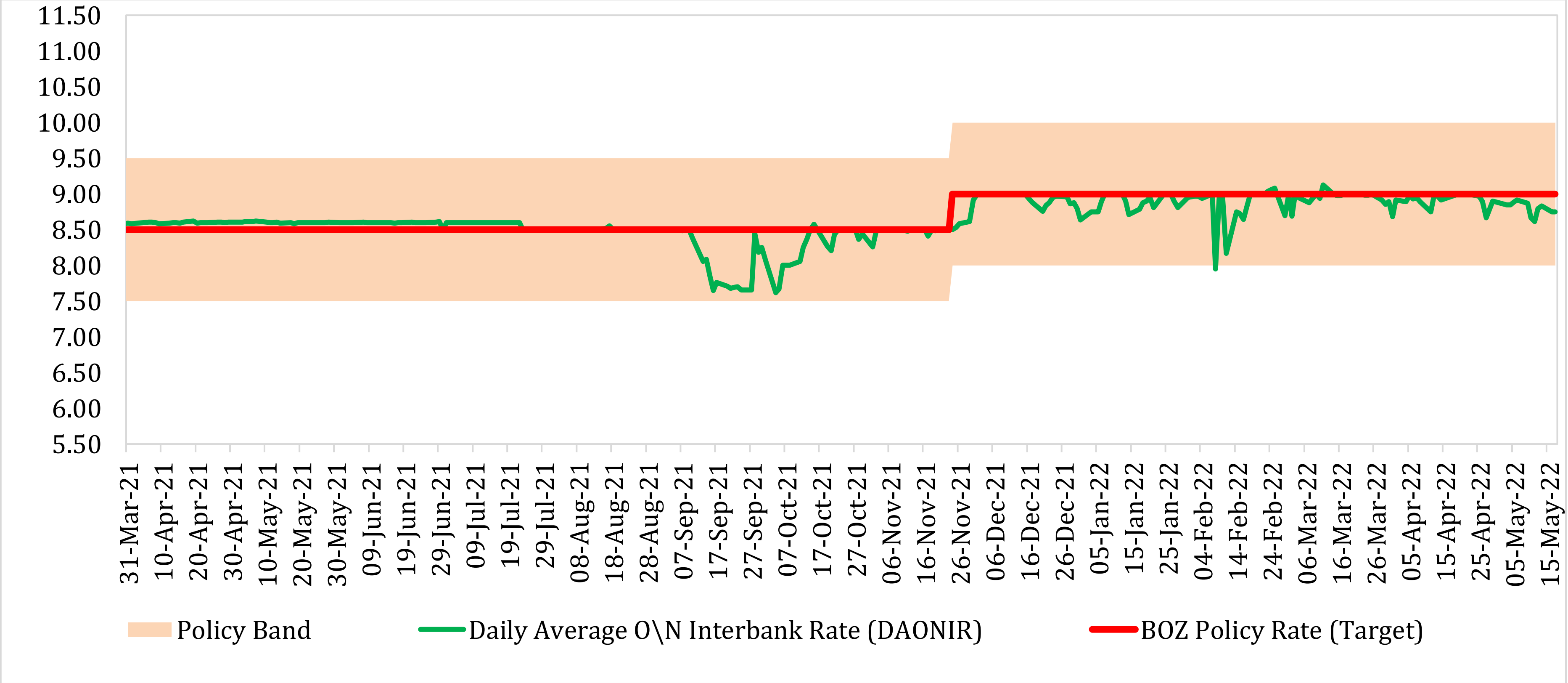
Chart 7: Interbank Rate and BoZ Policy Rate

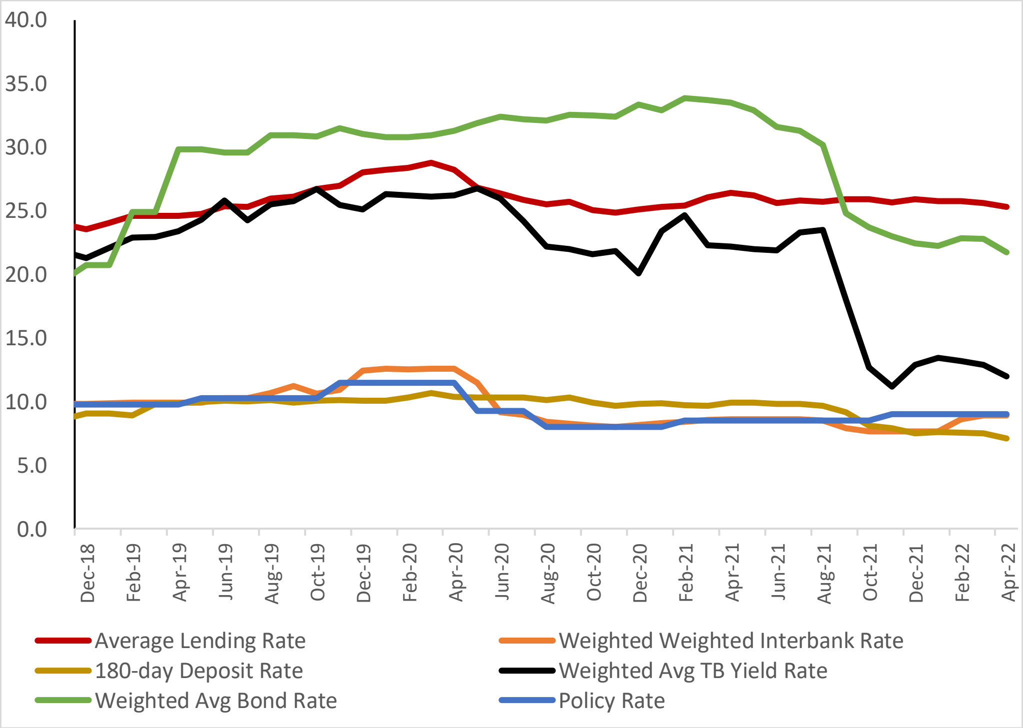


INTEREST RATES

- **However, the weighted average Treasury bill and Government bond yield rates declined by 0.3 and 0.2 percentage points to 12.7 percent and 21.7 percent in March, respectively (Chart 8).**

- **In April 2022, the weighted average Treasury bill and Government bond yield rates declined further to 12.0 percent and 21.7 percent, respectively.**

Chart 8: Nominal Interest Rates (Percent)



DOMESTIC CREDIT

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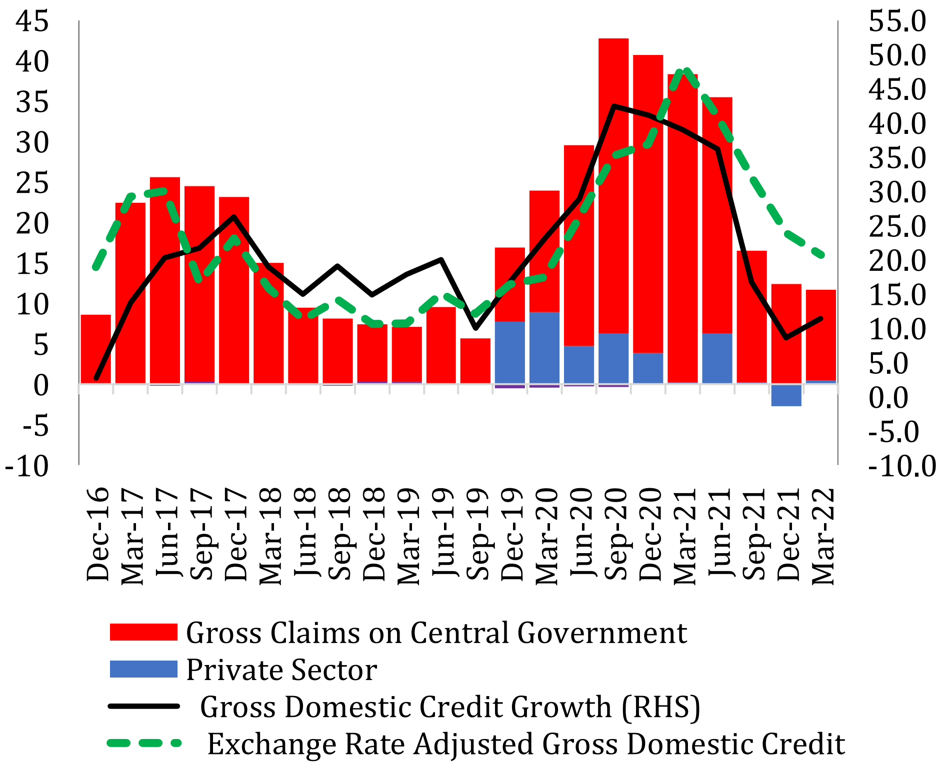
In March 2022, total domestic credit grew by 11.5 percent, year-on-year, compared to 8.6 percent in December 2021 (Chart 9).

Private sector credit grew by 1.4 percent, year-on-year, in March against a contraction of 7.8 percent in December 2021.

Growth in private sector credit was due to increased need for working capital to meet rising operating costs and was in part supported by further drawdowns on the Bank of Zambia Targeted Medium-Term Refinancing Facility.

In contrast, year-on-year growth in credit to Government slowed down to 16.8 percent from 17.9 percent in December 2021. The continued reduction in credit to Government, in part reflected limiting issuances of securities according to plan.

Chart 9: Contribution to Y/Y Domestic Credit growth



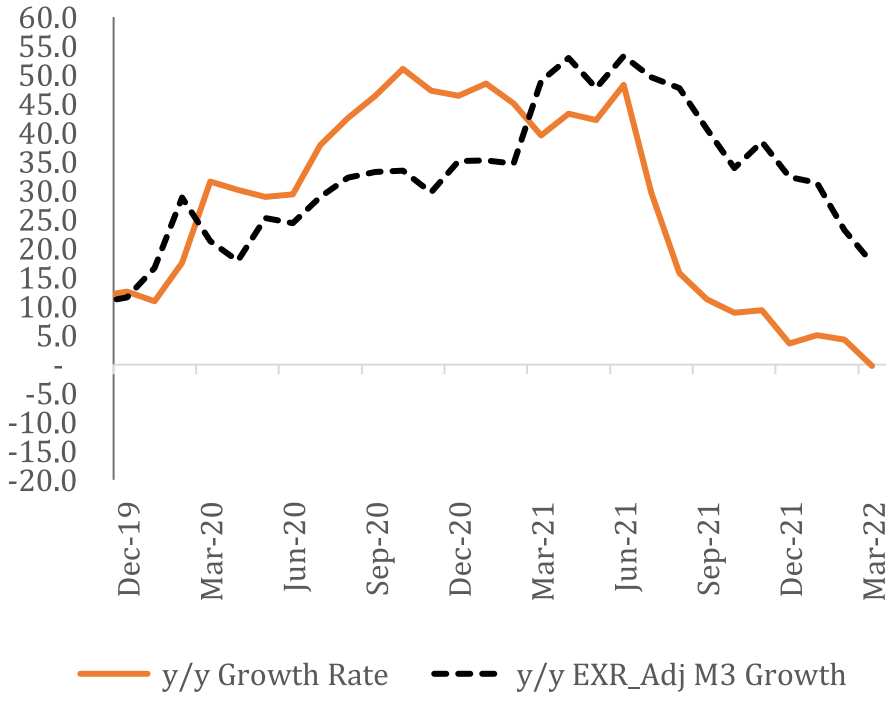
MONEY SUPPLY

In March, money supply (M3) contracted by 0.2 percent, year-on-year, against a growth of 3.7 percent in December 2021 (Chart 10).

However, adjusted for exchange rate movements, money supply grew, although it still slowed down further to 17.5 percent from 32.4 percent.

The slowdown in credit growth to Government largely accounts for this outturn.

Chart 10: Money Supply Growth (y/y), Percent



FISCAL POLICY

Preliminary data indicate an improved fiscal performance in the first quarter of 2022 largely on account of high revenue collections—particularly from the mining sector.

However, expenditure slightly exceeded the target following a deliberate increase in spending on social programmes. For 2022 as whole, the fiscal deficit as a percent of GDP, is projected to narrow to 6.7 percent from a preliminary outturn of 9.0 percent in 2021.

Further, the deficit is projected to reduce in 2023 and 2024 to 6.3 percent and 5.2 percent, respectively. Enhanced revenue mobilisation measures and rationalisation of expenditure, reinforced by the debt restructuring under the G20 Common Framework, underpin this projection.

CURRENT ACCOUNT

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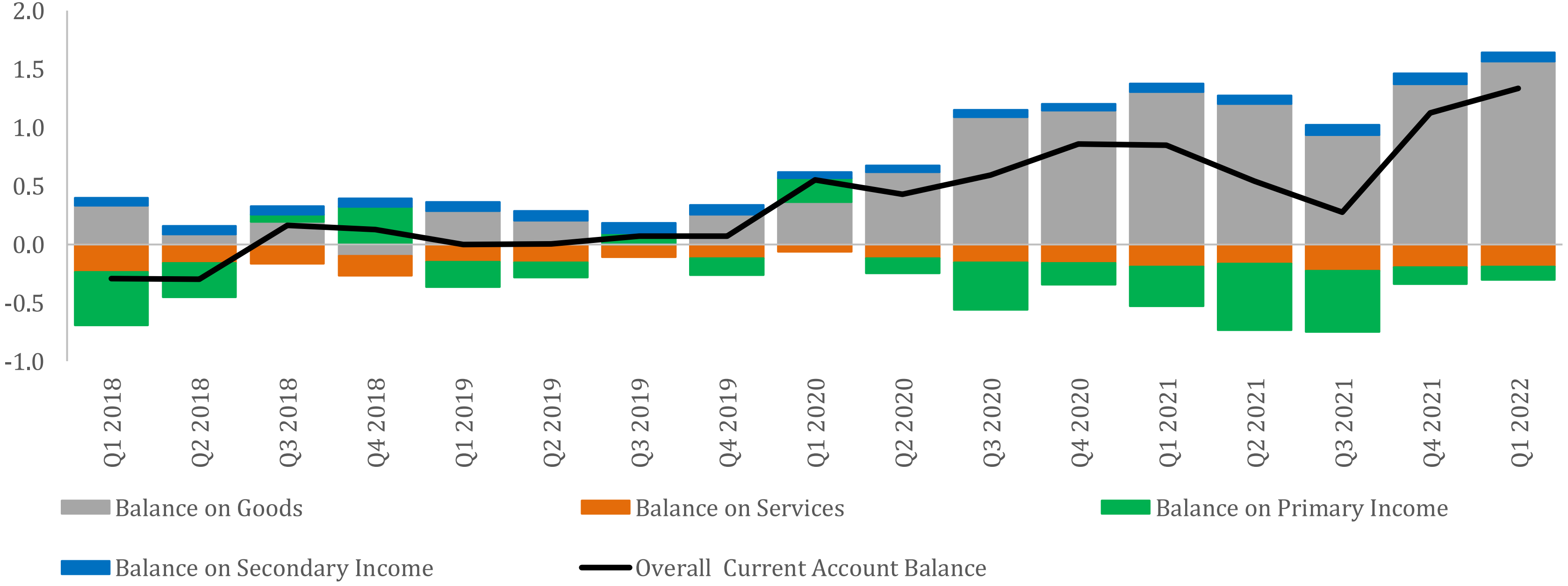
The current account surplus widened to US$1.3 billion (20.3 percent of GDP) from US$1.1 billion (21.2 percent of GDP). Increased exports amid a slight reduction in imports largely explained the outturn.

Chart 11 : Current Account Balance



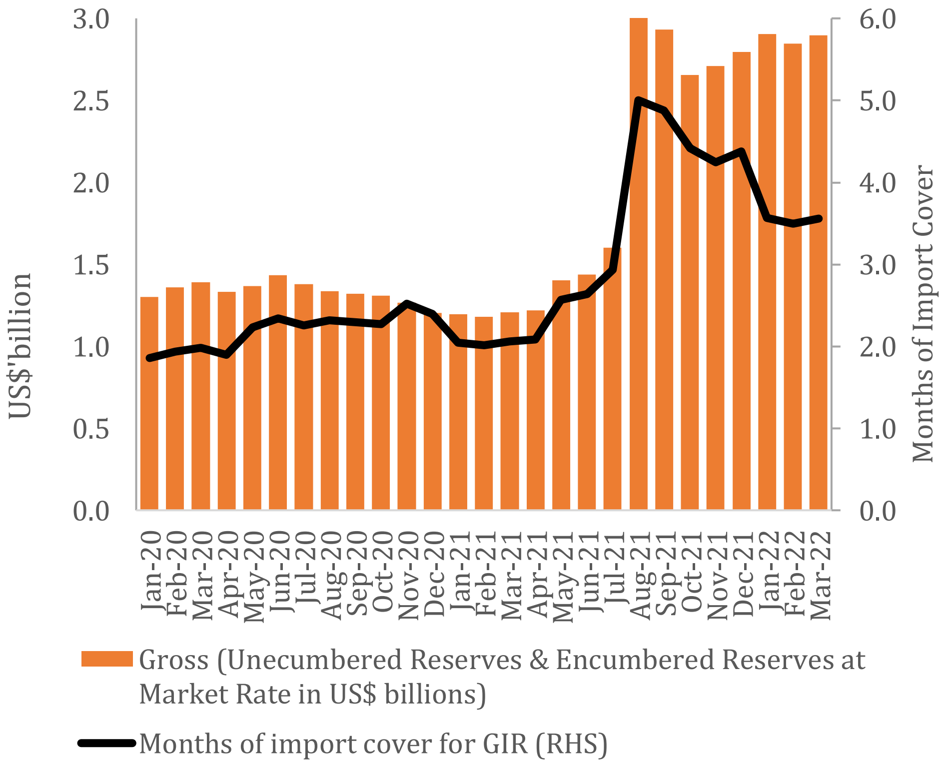
GROSS INTERNATIONAL RESERVES

Gross International Reserves increased to US$2.9 billion (3.6 months of import cover) at end-March from US$2.8 billion (4.4 months of import cover) at end-December 2021.

Mining tax payments and inflows of project funds were two main factors for the increase in foreign reserves.

The months of import cover reduced to 3.6 from 4.4 due to the upward revision of projected imports for 2022.

Chart 12 : Gross International Reserves



FOREIGN EXCHANGE MARKET

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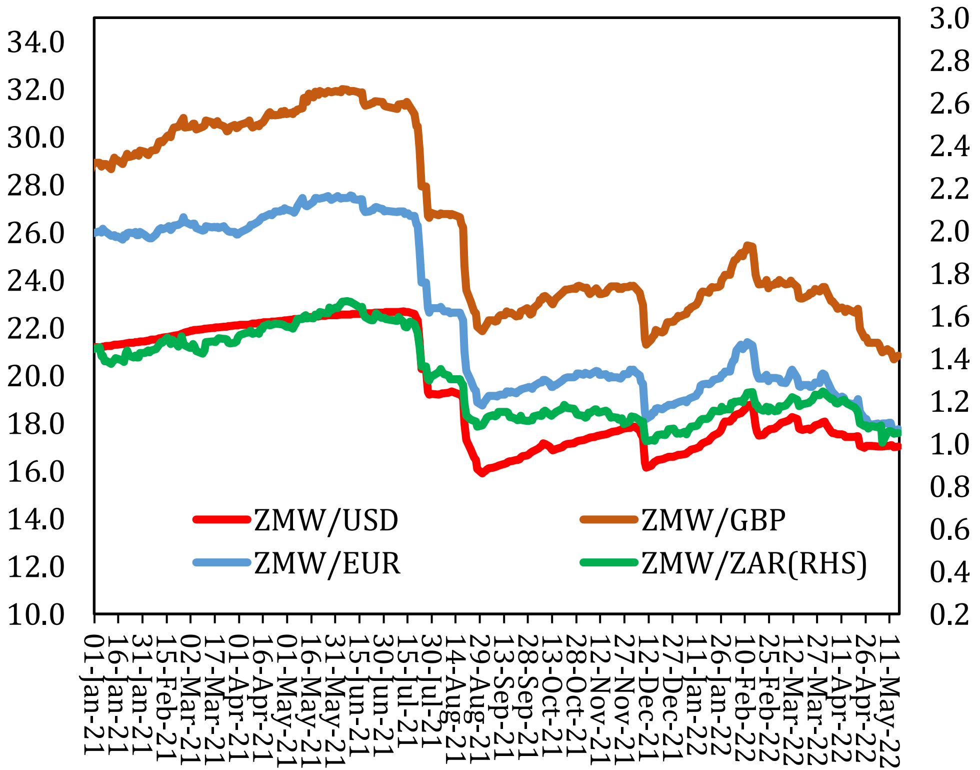
- **During the quarter under review, the Kwacha depreciated by 3.7 percent against the US dollar to an average of K17.76 per US dollar (Chart 13).**

- **This was on account of excess demand for foreign exchange, chiefly for importation of petroleum products.**

- **To moderate volatility in the exchange rate, the Bank of Zambia continued to provide support to the market.**

- **In this regard, US$372.0 million was provided to the market. This was mainly facilitated by foreign exchange purchases from the mining sector amounting to US$422.0 million.**

Chart 13: Nominal Exchange Rates



CONCLUSION

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- **The MPC, at its May 16-17, 2022, Meeting decided to maintain the Monetary Policy Rate at 9.0 percent.**

- **In arriving at this decision, the Committee took into account the continued deceleration in inflation and its projected further decline towards the 6-8 percent target range by end-2023. The Committee also took note of the positive efforts to implement fiscal consolidation measures, relatively weaker growth prospects over the medium-term, as well as lingering vulnerabilities and risks to the financial sector.**

- **However, the Committee was cognisant of the upside risks to the inflation outlook. These include increases in global energy and food prices, exacerbated by the on-going Russia-Ukraine conflict, outbreaks of more infectious strains of COVID-19, tighter global financial conditions, and the projected grain deficit in some of our neighbouring countries, coupled with reduced domestic surplus.**

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THANK YOU…

GOD BLESS…